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WESTERN EUROPE DIVISION  
OFFICE OF REPORTS AND ESTIMATES  
CENTRAL INTELLIGENCE AGENCY

DIVISION WEEKLY

VOL. VII - No. 5

For week ending 1 August 1950

2 August 1950

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AUTH: HR-70-2  
DATE 10-24-79 REVIEWER: 372044

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WESTERN EUROPE DIVISION

WEEKLY SUMMARY

VOL. VII - No. 5  
25X6A

For week ending  
1 August 1950

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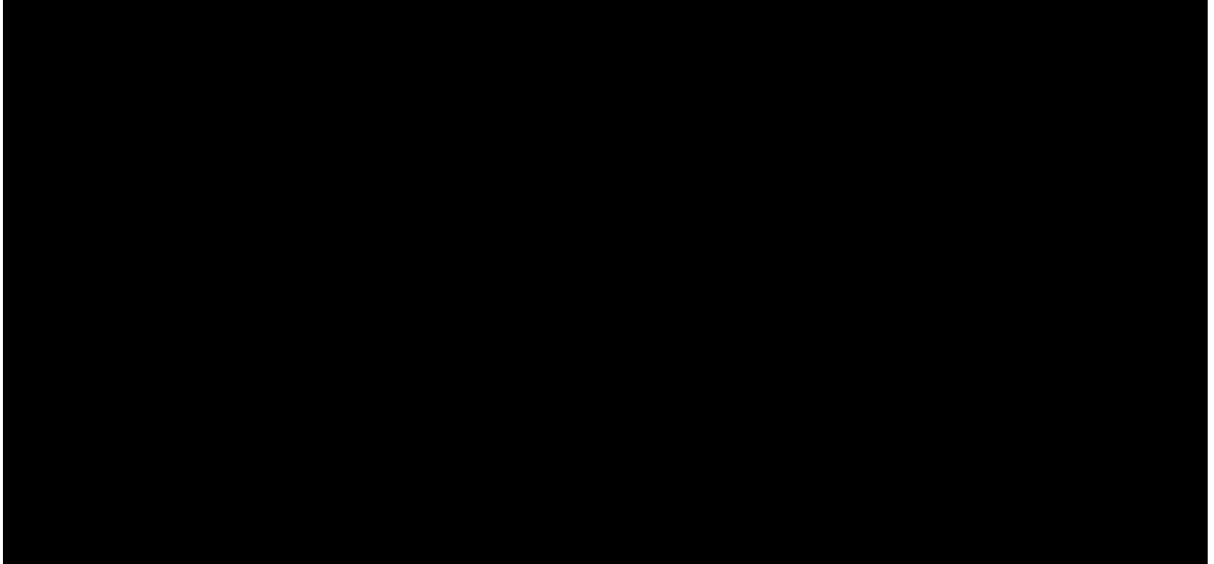
Approved For Release 1999/09/02 : CIA-RDP79-01090A000400040018-5

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S E C R E T

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AUSTRIA

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The National League, a recently-formed Austrian political group, is becoming a more obvious Soviet tool of the political Right. Its prospects for wide support are negligible, but its danger lies in the possibility that it will become a cadre of activists favoring the Soviet Union. Appealing to embittered ex-Nazis, ex-soldiers, and pan-German politicians, the League directs its call to those who, while opposing Communism, might favor cooperation with the USSR as a means of personal gain. According to police estimates, the League may have obtained between 2,000 and 3,000 converts who see in it a way of making themselves feel important now, and of assuring their personal safety, if, as they have been told, a future war is inevitable.

Originally, appearing as the smaller of two rightist groups which emerged in the wake of disintegration within the Union of Independents (a group composed of numerous dissatisfied political elements, including a large number of ex-Nazis), the League has proved more successful than the other small group, and presently appears to receive special Soviet support. This support is not obvious, however, for the League shuns publicity, seems to have no immediate political ambitions, and the Communist and Soviet press have carefully refrained from mentioning it in any way. Nevertheless, known Soviet pressure on Independent members to leave that organization and join the League, French revelations that League propaganda material is printed by a Communist publishing house, 25X1X72

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reports of a League liaison staff with the Austrian Communist Party, and repeated rumors that the League receives financial support and protection from the Soviet element are indications, which, taken with the propaganda themes advanced by League spokesmen, reveal the League's role as a tool of Moscow.

The main line of the League that a "people's democracy" in Austria is inevitable and that ex-Nazis in particular might just as well relax and enjoy it when it comes. Ex-Nazis are urged to come to terms with the USSR, not necessarily through preference, but from a recognition of necessity, however unpopular it may be. The League has declared that the USSR will never relinquish control of its zone.

The danger of the League's appeal lies in the fact that it is not pro-Communist and can be readily pointed at whatever defeatism may exist in Austria. At present, defeatism, even in the Soviet Zone, is not generally apparent, and, in view of the prolonged occupation of Austria, has been remarkable in its absence. Nevertheless, if the Austrians see no hope for the future, the continuing presence of Soviet troops with alternate capabilities for terrorization and promises may result in slowly emerging Austrian cooperation through such forms as the National League.

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The 500-million schilling export credit guarantee program recently approved by the Austrian parliament may improve the exporting capabilities of medium-sized concerns and contribute modestly to the contraction of the Austrian balance of payments deficit. Despite the considerable increase in the total volume of credit granted over the last year and a half, commercial banks have failed to provide adequate credit facilities for medium-sized and small firms. In addition the Government has been unsympathetic to credit controls which might have channeled private capital to the most essential businesses. Under the new program the Government guarantees 80% of approved export notes of one to five years' duration. By this method, the average Austrian exporter will be able to obtain credit and thus will be placed competitively on a par with his counterparts in other European countries where guaranteed export credit plans exist. No financial maladjustments are expected from such a large-scale financing effort, primarily because any inflationary tendencies can be counteracted by reducing counterpart fund releases.

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This program is another of the recent efforts made by the Austrians to improve the mechanics of exporting. To date, however, the steps which have been taken do not overcome the basic difficulties encountered by Austria as an exporting nation--high manufacturing costs, insufficient market research, the high profits to be gained by selling domestically, and the lack of modern industrial equipment.

#### SWITZERLAND

B

Swiss apprehensions about a defense of western Europe have grown with the demonstration of US unreadiness in Korea. As a consequence, the Swiss will urge greater re-armament in the West, including the rearmament of western Germany, and will probably undertake a substantial increase in their own military preparedness.

In both official confidences and press editorials, the Swiss are making clear their hope that the US draws the same conclusions from the Korean situation the Swiss have drawn--namely, that land forces remain of critical importance and that only by military strength can the US hope to redress the balance of power in the world. Never sanguine about the defense of Europe, the Swiss now believe that the problems of such defense are even greater than they had supposed. For this reason there will probably be increasing Swiss references to the need for a strengthening of US occupation forces in Germany, a reestablishment of German military force, and greater western European preparedness. The Swiss favor these moves as the best guarantees of peace, for they believe that the perception of Western weakness encourages the USSR to move aggressively.

At the same time, Switzerland will increase its own efforts to strengthen its "armed neutrality" through a build-up of its military power. This program will require greatly increased expenditures, which the Swiss appear prepared to make. The Federal Council is expected shortly to approve a special expenditure of something over one billion francs for equipment for the Swiss army. While the Swiss will undoubtedly seek equipment from the US, they will also attempt to buy from eastern European sources in order to maintain their neutrality status as well as to protect themselves in the event that equipment from Western sources proves difficult to obtain. In this connection, the Swiss are quite capable of utilizing their

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control over the US order for rockets from Oerlikon and, possibly for arms from Hispano-Suiza, as a means of attempting to get what they want in the US.

FRANCE

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Any increase in France's defense efforts will be conditioned by domestic political considerations and the extent of additional US financial assistance. The new Plevin Government, in order to retain the support of the Socialists, must heed their demands for a rise in real wages, their warnings against economies at the expense of the civil service, and their frequently critical attitude toward greater military costs. The Socialists have, moreover, increasingly shown the strength of their convictions by forcing Governments out of office--six in the past two years. At the same time, Premier Plevin faces strong Right-of-Center opposition to any net increase in over-all expenditures, and to any reimposition of economic controls.

Fear already exists among the Socialists that ECA aid will be diverted to military purposes at the expense of living standards, and the Communists have reminded the nation of their chronic warning that the ERP was designed to prepare for war, not an improved standard of living. Premier Plevin himself has admitted publicly that, aside from the effect of any curtailment of French production of consumer goods, a rise in the prices of US goods would have an inflationary impact on French prices, which might require a restoration of economic controls. Furthermore, it is generally acknowledged in France that the tight budgetary situation and the definite limitations on potential revenues sharply restrict the Government's freedom to expand military expenditures.

In the face of these major handicaps, Premier Plevin has been cautious in stating France's position on the increased defense requirements of the NAT countries. The Government now plans to propose for Parliament's approval an increase of only about 20% in the 1961 French military budget, from 420 to 500 billion francs (\$1.2 billion to \$1.4 billion). The French representatives at the London conference of NATO deputies proposed the establishment of a joint fund for military preparations, to which each nation should contribute in accordance with its economic and financial capabilities. The Premier declared that US military aid must take a new form, financing, through this joint fund, European production beyond present output, rather than only continuing to deliver US arms to Europe.

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The French are likely to place increasing emphasis on military aspects of the Indochina problem, correspondingly reducing their efforts to make the Bao Dai political solution workable. The French view is that the Vietnam situation now calls primarily for a military, rather than a political solution, on the theory that the Vietnamese political allegiance will be to the stronger side. The critical Far East military situation and the failure of the political solution sponsored by the US in Korea are being used to support this position. In their analysis of the political reaction to be expected in Indochina, the French underestimate the need to give the masses a stake in the Bao Dai regime, apparently ignoring the influence which the Communists have acquired in other Far East countries by organizing popular support. The French have now formally recommended that US economic aid be applied to projects that would directly aid the military effort. In previous informal discussions, the French have suggested that counterpart funds be used for the creation of the Vietnam army and that economic aid be channeled into military road development. A further indication of the trend toward highlighting the importance of military operations is the appointment of General Carpentier, commander-in-chief in Indochina, as acting High Commissioner during Pignon's extended vacation in France. Hitherto, an official of the civil administration has replaced the High Commissioner during his frequent absences.

B

Despite strong opposition to the Schuman Plan from powerful groups in France, it seems unlikely that their combined efforts will be sufficient to prevent ratification by the French Parliament should a treaty be agreed upon by the six negotiating countries. The opposition groups draw their support from influential elements in the National Assembly on the extreme Left and Right, but this support would have to be considerably augmented in order to defeat a treaty.

The firmest opposition to the Plan comes from the Communist-led General Confederation of Labor (CGT), supported in the Assembly by the 181 Communist and fellow-traveling deputies. Opposition also came initially from the steel producers. Then a large number of them changed their stand, provided that they would be consulted by the proposed international authority in matters regarding over-all planning. More recently, however, the steel syndicate and the Patronat (employers' association), which draws their support in Parliament from the rightist parties, indicated that they would try to whip back into line those elements within their organizations which tend to favor the Schuman Plan.

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On the other hand, the mechanical and electrical industries, which employ about one million workers, are organizing a special group to assist in planning the integration of industries, and will probably be able to counterbalance the opposition of the steel syndicate and the Patronat.

Though presently supporting the Schuman proposal, the French Socialists are demanding that sufficient safeguards for the workers be embodied in the treaty. The Socialists recognize that, through the necessary closing of inefficient plants, many workers will be temporarily jobless. The Socialist aim is to receive assurances in the treaty that these workers will find other employment, either in new industries or in expanding coal and steel plants. Schuman and Monnet have indicated their appreciation of this problem, and have given assurances that adequate safeguards will be provided.

If the Socialists chose to join the parliamentary forces already likely to vote against the Schuman Plan, a treaty could be defeated in France. It is improbable, however, that the Socialists will want to take the responsibility for the defeat of a Plan looked upon with hope by millions of Europeans.

ITALY

A

The large resources of labor and capital equipment presently idle in Italy could, by a moderate increase in Additional Military Production (AMP) assistance, be employed to turn out a considerable amount of military equipment for Western defense without drawing dangerously on the present civilian economy of Italy. If, however, the financing of such a project were attempted by reallocation of ECA assistance, Italian economic and political stability would be endangered.

Italy at present has 2 million persons fully unemployed and possibly that many more only partially employed. Of those over a third are skilled or semi-skilled workers. There is also a sizeable unused plant capacity. The mechanical industry is operating at only two-thirds capacity, most of the unemployed facilities being ex-munitions plants. The shipbuilding, textile, and other industries are capable of considerably increased production for military purposes with existing facilities. Although these unused facilities are inefficient from a competitive economic viewpoint, this factor is not important for military purposes.

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To utilize unused labor and equipment, dollar assistance under the AMP program would be necessary to obtain raw materials and to renovate and retool facilities. Not only would defense ends be promoted, but the consequent reduction of unemployment would weaken the Communist hold over labor, at present strong in the mechanical and other industries associated with military production. Experience has clearly indicated that the Communist strength in a given sector is, at least in part, a function of the unemployment situation in that sector. The political advantage to the Government of the increased employment would be especially important in case of hostilities.

Though the Peace Treaty imposes limits upon the war materials Italy may produce, Italy could probably use its unemployed facilities to turn out automotive parts, small arms, textiles for military use, and various other items, without either violating the letter of the Peace Treaty or creating an overly-attractive munitions prize for the USSR, should it overrun Europe.

On the other hand, the direct conversion of ECA allotments to military purposes might produce in Italy a strongly adverse reaction, both economic and political. Communist propaganda, which has alleged that the aim of the ECA is economic and political domination of Italy for imperialist purposes, would be well served thereby, and the fund of popular good-will which has surrounded the work of the ECA would be diminished. Moreover, the redirection to military ends of ECA efforts and of facilities now producing for civilian needs would add nothing to the exploitation of Italy's unused resources of men and equipment. Such redirection, therefore, would unnecessarily endanger the economic and political stability of Italy without strengthening Italy's military capabilities as much as otherwise possible.

THE VATICAN

B

Recent reports indicate that the Vatican is seeking to dispel the impression that the Catholic Church is necessarily identified with the present Spanish Government, and that the Vatican is using its influence to persuade Franco to resign. This policy has been in the process of crystallization for three years, and it is evident that during that period events have strengthened the Vatican conclusion that further close involvement with the Franco regime is a danger for the Church. The attention given by the Holy See to the

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case of the Pretender, Don Juan and to the Catholic opposition as presented by such leaders as Gil Robles and Aguirre, shows a desire on the part of the Vatican to weigh the possibilities of a peaceful transition to an alternative regime under which the interests of the Church will not suffer.

The considerations involved have been repeatedly presented to members of the Spanish hierarchy through various emissaries in contact with the Vatican and Franco has been urged through them to modify his policies. More pointedly, the reception in Rome accorded to Franco's personal representatives during Holy Year are only to be taken as a rebuke to the Chief of State, following his obvious efforts to extract from the Holy See some expression of favor for the regime as it stands, an expression which could be used to political advantage. Franco's wife was not presented with the Golden Rose customarily given to wives of chiefs of state as a mark of Vatican favor. On the other hand, Don Juan was accorded an attentive reception when he came to inquire about the Pope's views on a return of the monarchy. Pope Pius assured Don Juan that he has always considered Franco as temporary. The Pretender and his entourage feel assured, as a result of these conversations, that if Don Juan could show substantial evidence of the support of the Spanish people and a clear prospect of eventual political and economic aid from the principal Western Powers, the Vatican would not withhold its support of Don Juan.

Franco's reaction to such an attitude on the part of the Vatican undoubtedly is one of deep concern. He is, however, presumably ascribing the Vatican's attitude to international injustice, lack of understanding, and intrigues on the part of Spaniards in his own entourage as well as in the opposition. Therefore, it continues to be most unlikely that Franco will alter his policies in response to the Vatican's indirect suggestions.

B

The recent encyclical of Pope Pius XII exhorting the world to attain peace by prayers and penance is the first official Vatican statement made as a direct reply to the Stockholm peace appeal. While beseeching the heads of all governments to make every effort to attain peace, the Pope appealed primarily to the Soviet Union, denouncing Communist tactics based on falsehoods, and urging Moscow to follow the Christian principles of "truth, justice and charity."

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The success of the Communist "peace campaign" has presented a difficult problem to the Vatican and its followers. Many prominent non-Communists, including some members of the Roman Catholic laity and clergy, motivated by a sincere desire for peace, have signed the Stockholm appeal. The appeal has been used in efforts not only to stir-up anti-US feeling, but also to undermine the Roman Catholic Church. Those of the clergy who have refused to sign the Stockholm appeal have been accused of following the "warmongering policy" of the Vatican and Western imperialists. Despite statements by various Catholic organizations as to the hypocritical nature of the Communists "peace campaign" in contrast to the Vatican's genuine aim of world peace, some Catholics, prior to the Korean invasion, were being duped by the innocent-sounding appeal to outlaw the atomic bomb.

Thus Pope Pius' new encyclical, definitely stating the Church's stand on peace and purposely omitting any reference to banning the atomic bomb, gives the Catholic clergy a concrete weapon with which to counteract the Communist drive for "peace". The Church can be expected to follow up this encyclical with propaganda and action intended to impress upon Catholics the dangers to Christianity inherent in the Communist "peace campaign."

#### SPAIN

B

A resurgence of regionalism in Catalonia (north-eastern Spain) in opposition to the Franco regime is apparent to an extent which apparently has inspired a Ministerial decree for the formation of a new public order force at the service of the provincial authorities. The conspicuously increased use in business of the Catalan language, which the regime has tried to relegate to folklore by the techniques also used against the Basques, is one of the manifestations of the exasperation felt in Barcelona over the regime's policies. Resentment is especially acute among firms and banking institutions connected with the Cotton Consortium, a long-established organization of private companies which has handled group purchases of cotton for the textile industry. Minister of Industry and Commerce Suances has sought over the past three years to break the power of this group and has been able to embarrass its operations through his control of foreign exchange and import licenses.

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A final stroke regarded as particularly disadvantageous by the Catalanian interests is Suances' decision to establish competitive cotton mills in Malaga, as a means of relieving the chronic unemployment of southern Spain. This proposal is not illogical, and under a planned economy probably can be justified as a beneficial industrial venture which could not be accomplished without Government financing; some dispersion of industry between the north and south of Spain doubtless is desirable. Moreover, the Barcelona interests historically have exploited the intense regionalism of the Catalan people in order to promote monopolistic advantages, and have used their political and commercial power to obstruct competitive enterprises which would have been helpful to other parts of Spain. (Completion of the railway from Madrid to Valencia, for example, was blocked for many years so as to keep Valencia from becoming a port which might rival Barcelona.)

The possible merits of the Government's policy in this instance, however, are not likely to produce quick benefits for the south which would offset Catalanian disaffection, were the latent spirit of rebellion in that region ever allowed to come into full play. Since the unexplained blowing up of an ammunition dump near Barcelona a few weeks ago, the Government seems to be unusually vigilant. The press announcement that troop strength in the Pyrenees is being increased may in part relate to this domestic situation, as well as to Franco's desire to show military alertness in view of the international situation.

B

The Don Juan Monarchists, presently in Lisbon, have been encouraged by the Vatican attitude toward Franco to (see article under The Vatican) increase their cautious efforts to align reliable adherents inside Spain. Jose Maria Gil Robles, the Pretender's rightist Catholic adviser, is reported to be staying at a secluded place in Spain near the Portuguese border, possibly in connection with these efforts.

At the same time, several counterintrigues have developed within the regime, involving conservative Catholics and Monarchists including the Foreign Minister and Franco's Ambassador to the Vatican. Such leaders apparently would

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like to maneuver both Franco and Don Juan into an agreement which essentially would preserve the present situation, exclude the Socialists and all Republican elements, but introduce into the Government a nominal Christian Democratic representation, which it is hoped would be acceptable to the Vatican and the Western democracies. Franco is aware of these machinations; while playing for time, he is relying on his Falange advisers to offset the influence of the conspirators. The onset of the Korean crisis has afforded him an incalculable advantage. Many members of the Government are confident that Franco will now receive US military and economic aid regardless of contrary political considerations. With few exceptions, the military will support the regime as long as they deem this hope reasonable.

## PORTUGAL

B

The Plenary Court at Lisbon, in demonstrating marked independence from police and governmental pressure in its insistence on literal application of the Political Amnesty Law of 21 April 1950, may force the Government to create a law which specifically makes adherence to Communism a criminal offense. Otherwise, the police in their effort to prosecute Communists, may attempt to evade normal judiciary practices which they have hitherto closely respected. The recent Amnesty Law was unanimously adopted by the National Assembly, against the recommendations of the Corporate Chamber, in conjunction with the law revoking the banishment of the royal family.

The law of 21 April amnesties political crimes, with some exceptions, and provides for the reinstatement of amnestied persons in civil or military positions under the

State or in the enjoyment of pension rights which they normally would have earned. This law retains the stipulation of a decree of 13 June 1949 to the effect that "preventive measures shall be taken" in regard to Communists; it does not, however, define Communism as a crime.

The courts, interpreting the law literally, have recently dismissed cases against seven of seventeen defendants accused of Communist Party activities, on the grounds that conviction would only lead to application of the Amnesty Law. In addition, police cases against members of the National Democratic Movement, which is believed to have Communist membership, and others accused of political crimes, were

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dismissed for the same reason. In the recent trial of Dr. Alvar Cunhal, Secretary General of the Portuguese Communist Party, the Government was unable to refute the defense's argument that "nowhere in Portuguese law is Communism specifically declared to be a criminal offense." Cunhal consequently received a light sentence despite his admitted Communist activities.

#### BELGIUM

A

The forced abdication of King Leopold on 1 August after only ten days on the throne eases the immediate crisis in Belgium but will by no means end the bitter regional and political division of the nation. Technically, the King will not abdicate until September 1951, when his heir, Prince Baudouin, becomes 21 years old. Baudouin will act as regent in the interim, so that for all practical purposes Leopold's abdication is effective immediately. Though the Flemings will be dissatisfied with Leopold's withdrawal, the fact that the Social Christian (Catholic) leadership was a party to the agreement with the Socialists and Liberals, and that the Catholic Party will remain in power, probably will prevent any serious disturbances. Baudouin, as Leopold's successor, is personally as well as legally acceptable to the nation as a whole, largely because so little is known about him.

The political strife and personal animosities engendered by the struggle over the King will hinder the effective implementation of governmental policies for some time, although there is basic agreement among the non-Communist political parties on Belgium's international responsibilities. The Social Christian Party will continue its dominant role, whether in a one-party Cabinet or in a coalition with the Liberals. Although the political breach would be healed more rapidly if the Socialists were included in the Government, even for a short time, this is unlikely at present.

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